

## MGT388 SECOND FORMATIVE TEST - MANAGEMENT ACCOUNTING

10 QUESTIONS (ESTIMATED TIME: 18 MINUTES)

### ANSWERS

Each correct answer: 2 marks      Each wrong or not given answer: 0 marks

1) Which of these statements is true?

- i) Management accounting describes the process of collecting, collating and reporting information that is of use to the managers of a business for making decisions, for monitoring past performance and for making the most efficient use of resources.
  - ii) Cost accounting describes the process of identifying and accumulating the costs of business operations in a way that is helpful in valuing inventory and in identifying the costs and profitability of different departments or divisions of a business.
- a. Both of them
  - b. i) only
  - c. ii) only
  - d. Neither of them.

ANS: A

2) The management accountant of Unsworth Brighton Limited is considering the most appropriate basis for apportioning the overhead of factory building maintenance between the company's three principal production areas. His assistant has presented him with the following list of possible apportionment bases. Which is the most appropriate basis for apportioning this particular overhead?

- a. Machinery repair call outs
- b. Number of employees
- c. Factory floor area
- d. Factory machinery carrying amount.

ANS: C

3) Which of the following statements is incorrect?

Target pricing:

- a. Involves establishing a price by reference to what the market will bear.
- b. Is possible only where a virtual monopoly for a product exists.
- c. May require severe cost-reduction programmes.
- d. May involve increasing production volumes so as to reduce unit costs.

ANS: B

- 4) Marx Muller Limited plans budget income and expenditure as follows, in respect of the sale and manufacture of 500 units of its product in July 20X7:

	£
Sales: 500 units x £30	15,000
Costs	
Direct costs (material and labour)	(7,000)
Production overheads (absorbed at £8 per unit)	(4,000)
	<hr/> 4,000
Selling and administrative overhead	(2,000)
Net profit	<hr/> 2,000

All direct costs are variable, but both production and selling and administrative overheads are fixed in nature.

What is the additional cost of manufacturing one further unit of product in July 20X7?

- a. £4
- b. £14
- c. £22
- d. £26

ANS: B (Marginal cost is variable cost;  $£7,000/500 = £14$ )

- 5) Kik & Greg Limited produces computer-controlled knitting machines. It incurs the following production costs in the month of March 20X3:

	£
Knitting machine components	3 630
Factory rental costs	1 664
Electricity – factory	536
Machine operators' wages	6 620
Sundry direct materials costs	1 326
Depreciation of factory machinery	862
Sundry factory costs	937
Circuit boards for knitting machines	1 236
Factory cleaning	212

What is the total of production overheads for the month of March 20X3?

- a. £10 831
- b. £3349
- c. £4211
- d. £5447

ANS: C

Production overheads total:

	£
Depreciation of factory machinery	862
Electricity - factory	536
Factory cleaning	212
Factory rental costs	1 664
Sundry factory costs	937
Total	<u>4 211</u>

- a. £10 831 (Total of £4211 + direct labour of £6 620) - incorrect
- b. £3349 (Total of £4211 – Depreciation of £862) - incorrect
- c. £4211 - correct
- d. £5447 (Total of £4211 + circuit boards of £1236) - incorrect

6) Jim & Judith Limited manufactures a standard model of hair straightener. The selling price of each straightener is £35. Variable costs of manufacture are £9.80. During its 20X7 financial year the company expects to incur fixed production costs of £78 000 and fixed selling and administration overheads of £38 000.

What is the expected break-even point in sales value in 20X7 (working to nearest whole unit and £)?

- a. £115 996
- b. £161 105
- c. £77 994
- d. £108 325

ANS: B

Contribution per unit: £35 – 9.80 = £25.20

$$\text{B/e point} = \frac{£78\,000 + 38\,000}{25.20} = 4603 \times £35 = £161\,105$$

- a. £115 996 (4603 x £25.20 = £115 996 – i.e. use correct units but variable cost per unit in sales calculation) - incorrect
- b. £161 105 - correct
- c. £77 994 (3095 x £25.20 = £77 994 – i.e combine errors from a. and d.) - incorrect
- d. £108 325 (78 000/£25.20 = 3095 x £35 = £108 325 – i.e. use fixed production overheads only) – incorrect

7) Sandy Key Limited applies cost-based pricing to its range of products. A new product, the Miracle Stone, is due to start production and the directors have met to determine a selling price for it.

The new product's cost card includes the following details for each unit of Miracle Stone:

	£
Direct materials	12.70
Direct labour	10.50
Direct expenses	2.00
Production overhead (absorbed using direct labour hours)	<u>13.90</u>
Total cost	<u>39.10</u>

The directors use variable cost-based pricing, applying a standard mark up of 36%.

What is the selling price of each Miracle Stone unit (to the nearest penny)?

- a. £53.18
- b. £31.55
- c. £39.38
- d. £34.27

ANS: D

Variable costs ( $£12.70 + 10.50 + 2.00 = 25.20$ )  $\times 136\% = £34.27$

- a. £53.18 (i.e. mark up whole cost:  $£39.10 \times 136\% = £53.18$ ) - incorrect
- b. £31.55 (i.e. mark up DM and DL only:  $[£12.70 + 10.50] \times 136\% = £31.55$ ) - incorrect
- c. £39.38 (i.e. calculate as margin not mark-up:  $£25.20 \times 100/64 = £39.38$ ) - incorrect
- d. £34.27 - correct

8) Which of the following is an element of working capital in a limited company?

- a. Share capital.
- b. Earnings retained for use in the business.
- c. Intangible assets.
- d. Trade payables.

ANS: D

9) Which organisation issued the 17 SDGs?

- a. IASB.
- b. ISSB.
- c. UN.
- d. SASB.

ANS: C

10) The basic decision rule on acceptance of special contracts is:

Accept the special contract if:

- a. The additional revenue from the contract exceeds the fixed costs of manufacture.
- b. Additional fixed costs can be covered by contribution from other products.
- c. It produces a positive contribution to fixed costs.
- d. It produces a positive contribution to variable costs.

ANS: C